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Viewing cable 07LIMA2430, GARCIA ON THE FTA, PROTESTS AND NEED TO EXPEDITE

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Reference ID	Created	Released	Classification	Origin
07LIMA2430	2007-07-16 22:30	2011-08-30 01:44	CONFIDENTIAL	Embassy Lima

Appears in these articles:

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SUBJECT: GARCIA ON THE FTA, PROTESTS AND NEED TO EXPEDITE
GOVERNMENT SPENDING

Classified By: Ambassador J. Curtis Struble, reasons 1.4 (b) and (d)

¶1. (C) SUMMARY: During a 30-minute farewell call July 9 at the Presidential Palace, President Garcia and Ambassador Struble discussed the U.S.-Peru Trade Promotion Agreement (PTPA), the current wave of nationwide strikes and the difficulties the GOP has had in freeing up government funds for much-needed infrastructure projects. Ambassador also thanked President Garcia for the access and frankness that characterized their relationship during his Presidency and while Garcia was an opposition leader. Garcia told Ambassador it was a pity that the U.S. Congress did not appear ready to act on the PTPA, but said he hoped approval would be forthcoming in the fall. On the current nationwide strikes, while Garcia thought some leftist activists were probably involved in stirring the pot, he also expressed some sympathy with local officials who were frustrated at the restrictions on much needed spending projects. End Summary.

¶2. (U) Ambassador Struble, accompanied by A/DCM, made a 30-minute farewell call July 9 on President Alan Garcia. The President was accompanied by the APRA party's Secretary General Mauricio Mulder.

U.S. DELAY ON FREE TRADE AGREEMENT

¶3. (C) Garcia told Ambassador he thought it was a pity that the U.S. Congress did not appear ready to act on the PTPA before his departure July 30 but said he hoped approval would be forthcoming in the fall. Garcia was confident that the Peruvian economy would continue to perform very well, but said that failure by the U.S. Congress to approve the PTPA would shake confidence.

A RESTRICTIVE PUBLIC SPENDING SYSTEM

¶4. (C) Garcia devoted most of his remarks to the protests underway in the country this week. While he noted the involvement of the usual suspects from the far left in stirring the pot, he exhibited a certain understanding for the frustration local officials feel over the hoops they must jump through to make infrastructure investments. As Garcia explained, it made sense in 2000-2001 for the government to use the restrictive SNIP (National Public Investment System) process to slow expenditures, suggesting it was designed in part with that purpose. State funds were tight then, and it also made sense to maximize the impact of state investments.

¶5. (SBU) In current circumstances, however, several aspects of the SNIP system are harmful. First, SNIP rules demand a annual rate of return of 14 percent on projects although the central government can get IFI lending at 6-7 percent for infrastructure projects. The qualifying rate of return should be moved down to 11 percent, which Garcia said is the South American average. Even at that level, road investments in the poorest highland provinces would never qualify. Some concessional rules there were clearly necessary to allow projects with a 7 percent rate of return.

¶6. (SBU) Finally, Garcia said the steps in the SNIP process need to be compressed from 5 to 3 by eliminating duplication or substantively meaningless requirements. As things stand now, he said, a highlands mayor who wants to spend one million Soles to repair an irrigation channel that has existed since the time of the Incas must spend two years meeting SNIP requirements and another year or two in the procurement process. It's no wonder, Garcia said, that this drives local officials nuts.

17. (C) Ambassador expressed appreciation for Garcia's friendship, accessibility and frankness both during his time as an opposition leader and as President. Recalling their informal breakfast meetings, Garcia noted (accurately) that he had always delivered on his commitments for political support of legislation important to the U.S.
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